MAROUNs

The growing insurance gap for millennials

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Executive summary

This paper explores the insurance gap for young adults under the age of 30 as calculated in the 2016 ASISA Insurance Gap Study. On the back of a number of trends impacting on both the need and actual amount of cover that young adults between the ages of 19 and 30 are exposed to, it is hypothesised that the figure calculated in the 2016 Insurance Gap Study is an underestimate of the true magnitude of the insurance gap for this population segment.

This paper investigates the insurance gap for millennials, who have been termed MAROUNs (Millennials at risk of underinsurance). In its most elementary form, this gap constitutes the difference between the need for insurance and actual cover. The various components of these two elements are explored to provide insight about the reasons for the existence and magnitude of this deficit in insurance cover.

The findings of this paper show that the insurance gap for MAROUNs is indeed underestimated and will continue to grow unless unique solutions to the challenges identified, are found. Despite these complex challenges, this paper will show that, in its most basic form, a solution to this growing insurance gap is relatively simple and affordable. In line with these findings, this paper explores Discovery Life's Smart Life Plan as an example of a potential solution that has been designed - taking the existing challenges of the landscape into account.

Introduction

Millennials at Risk of Underinsurance (MAROUNs)

Millennials, more formally termed Generation Y, are defined as the age group cohort consisting of individuals born between the 1980s and early 2000's. This individuals in this age band represent the largest segment of the South African population and are in the embryonic stages of their working careers. Not only will this group drive the economy for decades; their self-sufficiency in retirement and upon a life-changing event will be critical to the sustainable growth and prosperity of the economy.

Given their numbers and influence on the future of South Africa, it is clear how important financial planning and insurance considerations are for this cohort.

References to millennials and their unique experience are often discussed in the context of the information age that this group grew up in. Directly or indirectly, this generation and the information age that came with them has co-opted vast changes in lived experiences and attitudes in the 21st century.

These changes span geopolitics, technology, environmental concerns, social issues, socio-economic classes and economics, to name a few. The result is that this generation and their younger siblings are consumers with vastly different attitudes, needs and wants.

From an increased focus on health and wellness, to a distrust of financial advice and institutions, a multitude of trends are currently impacting on both the need for millennials to have insurance and the actual amount of cover that they have. These trends compound the general trend of underinsurance experienced in South Africa.

The 2016 ASISA Insurance Gap Study is the leading insurance gap study in South Africa. This study found that the total insurance gap in South Africa had risen by 6.3% since 2013 to over R28 trillion. The study also found that cover adequacy levels were lowest for people under the age of 30 where they now have an insurance gap in excess of R4 trillion.

Despite cover adequacy levels being lowest for millennials, in light of the trends persistent for this age group, it is likely that this insurance gap is significantly underestimated, leaving millennials at an even higher risk of underinsurance than previously suggested.

To gauge the true size of the insurance gap for this key population segment, this paper will first perform a detailed analysis of the factors affecting both the need for insurance at a young age and the actual amount of cover that millennials have.

This will involve understanding the key trends facing millennials, including lifestyle, attitudinal and macro-economic, which are contributing to the insurance gap.

This paper will then go on to perform an extension of the 2016 ASISA Insurance Gap Study, performing a quantitative estimate of the insurance gap for millennials, taking the challenges identified in this paper into account.

Finally, this paper will provide an example of a potential solution to the challenges identified, a tailored application of Discovery Life's shared value insurance model in the form of its Smart Life Plan.

[1] The ASISA 2016 South African Insurance Gap Study defines the insurance gap as the difference between the insurance need and the actual level of cover within the population. This was calculated by looking at how much cover the average South African earner would need to ensure that their family could maintain their standard of living in the event of their death or disability.

Factors influencing the need for life insurance

There is a notion among young adults that life insurance is unnecessary in your twenties, owing to a perceived lack of risk to which this population segment is exposed and an underestimation of the long-term impact of suffering a life-changing event.

In light of these misconceptions, this section examines MAROUNs' need for insurance as well as specific challenges and realities that make insurance cover particularly relevant for this population segment.

Long-term exposure to life-changing events

The expected present value of **lost future income** on permanent disability for a 25-year-old is **R47 million.**

Although many in this cohort may not have dependants such as children or a spouse, they themselves are dependent on a lifetime of earnings that is under threat incase of a permanent disability. This age group cohort of 20-year-olds have the highest present value of future income owing to the significantly longer period of time that they will need to be provided for if they suffer a permanent disability.

As an illustration of this, a 25-year-old professional earning R20 000 per month has an expected present value of future income of approximately R47 million* (a present value 2.5 times greater than the equivalent 45 year old). Given that the present value of future income is the highest at this age, there is a massive asset at risk of being lost if permanent disability occurs.

These findings are confirmed by Discovery Life's claims statistics.

In 2017, permanent disability claims on Discovery Life made up a staggering 1/7th of all Income Continuation Benefit claims for 18- to 30-year-olds. In light of the long term, approximately 35 to 40 years, with no income that these permanently disabled clients are exposed to, these claims accounted for 78% of the total amount paid out[3].

Risky behaviour

The millenial motor vehicle accident fatality rate is 60% higher than the average of all other ages combined[2].

The significantly longer term of exposure that millennials are exposed to is contextualised by high levels of risk-taking behaviour displayed by MAROUNs. Studies have shown that young persons have a naïve sense of invincibility and under-appreciation for the probability of suffering a life-changing event. One example of this risky behaviour - particularly within the context that almost 88% of all deaths for m illennials on Discovery Life have been as a result of behavioural, yet largely controllable causes, such as car accidents, is not only the more frequent nature in which alcohol is consumed but also the quantum of alcohol that is consumed.

Research consistently shows that people tend to drink the heaviest in their late teens and early to mid-twenties[1] and that when they drink they consume 90% of their alcohol from binge drinking[2]. In light of this risky behaviour, when viewed in aggregate, we see that the young adult motor vehicle accident fatality rate is 60% higher than the average of all other ages combined[3].

The graph below shows the causes of death by age on Discovery Life's book in 2016. There is clearly a significant behavioural element that needs to be considered for this population segment given the much larger number of deaths attributable to unnatural causes.

Causes of death by age

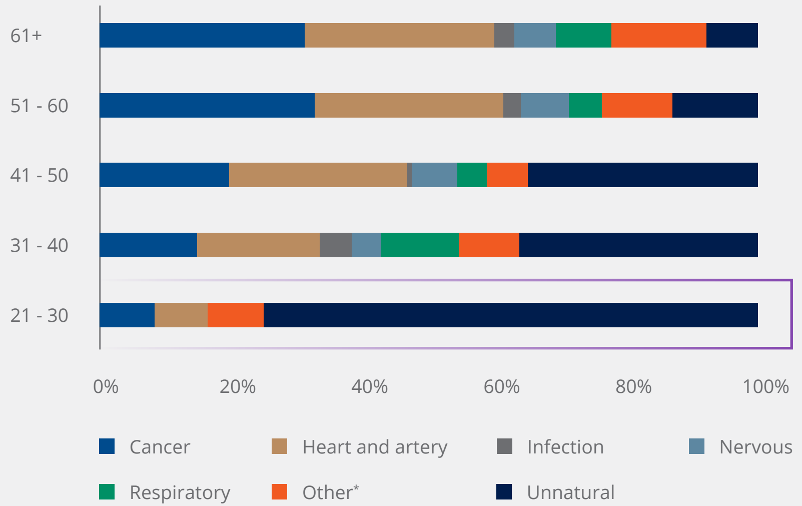


Figure 1 – Causes of death by age group of Discovery Life clients

An underappreciation for the likelihood of these events also results in an underestimation of the financial impact, which can be severe.

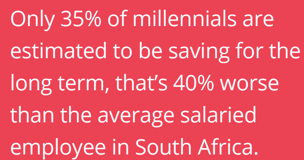
It is estimated that of the 145 000 graduates entering the working world at the end of 2018[3], approximately 3 900 of them will suffer a life-changing event** before age 35, 10 000 before the age of 45 and over 23 900 before the age of 55.

These statistics provide a clear illustration of the severity of the long-term consequences of an invincibility complex portrayed by many millennials.

*Assumptions: This professional experienced three salary increases after three years, six years and 10 years for a final salary of R75 000 grown by salary inflation of 8% until age 65.

** Life-changing event defined as passing away or suffering either a severe illness or disability event.

Lack of meaningful savings



The present bias seen in millennial attitudes is informing their long-term and short-term saving habits.

In South Africa, average savings are currently 0.2% of household income and only 56% of salaried individuals have some form of long-term savings . This figure is 40% worse for millennials[5] with only 35% of millennials estimated to be saving for the long term[14]. This trend has also been worsening, where statistics show that the household saving ratio is the lowest it has been since 1952 and has declined substantially over the past two decades[6]. This trend is not unique to South Africa where research has shown that the share of millennials with $0 in savings has risen from 31% in 2016 to 46% in 2017[7].

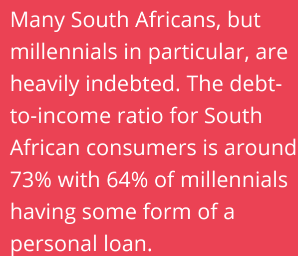
This lack of a propensity for saving leaves young adults, in particular, significantly exposed in both the short and long term. Not only will millennials have no savings to fall back-on if they suffer a financial shock or a life-changing event, but they will also be severely impacting on their already scarce retirement provisions.

Research done in 2017 shows that only 6% of South Africans are able to retire comfortably[8]. A recent survey found that almost half of those aged between 18 and 34 today have spent more of their hard-earned money on coffee than on any form of retirement investing[9].

Despite an understanding of the importance of saving for retirement (where 25% of millennials in recent surveys said that they are worried about their ability to ever afford to retire), only 10% say retirement is their top priority. In addition, 37% indicated that retirement is simply too far off and that they have more immediate priorities, highlighting the present bias seen in this population segment[10]. The more frequent changing of jobs by millennials, given the continuously evolving nature of their work, compounds this problem[11].

In terms of social security, 33% of South Africans think that the government will care for them if they are unable to care for themselves[12]. Unfortunately, South Africa's social security system can currently only support its poorest citizens. The maximum grant currently payable is R1 520, which is insufficient as a living wage for the majority of South Africans[13]. In short, millennials cannot expect to be able to rely on the state to meaningfully provide for them in retirement. In addition, there is a knock-on effect: if the current young generation inadequately provides for their own retirement, they leave the next generation too big a burden to bear when this generation reaches old age. Given a social security system that cannot meet the needs of the majority of the population, financial planning, including adequate insurance, is more important than ever.

Overburdened with debt



Many South Africans, but millennials in particular, are heavily indebted. The debt-to-income ratio for South African consumers is around 73% with 64% of millennials having some form of a personal loan.

South African consumers have a debt to household income ratio of approximately 73%[14]. This figure appears to be even worse for millennials with 64% of South African millennials having some form of a personal loan related to either car finance, student loans or credit card debts, to name a few. Moreover, it is estimated that 35% of millennials' income is spent on servicing the interest on their outstanding debt[15].

The number of South African graduates has been rising, and continues to rise, steadily year on year; there has been a 22.3% increase from 2012 to 2016. Despite the benefit of a rise in university graduates, these graduates are leaving university with significant amounts of student debt with 60% of students having some form of student debt[16].

This is a trend that appears to be getting worse, where recent studies have shown that millennials are more likely than older generations to have student loans to pay. According to a 2015 Pew report, this number compares to, at their peaks, 26 percent for Generation X, 13 percent for baby boomers and three percent for the Silent Generation[17].

As of 2017, R29.8 billion in student loans are owed to the National Student Financial Aid Scheme alone[18], a figure which excludes student loans granted by commercial banks. Tuition fees alone for a 3-year degree at a local university is around R140 000 in present value terms[3,19]. This excludes textbooks, living expenses and accommodation if studying away from home. This translates into a significant burden on graduates, who would in any case have other financial considerations when they first start working.

Study loans can serve as an impediment, preventing previously disadvantaged graduates from moving up into the middle class because they have too much debt holding them back; and the same circumstances that necessitated the study loan in the first place would make it impossible for parents to assist them in paying off their study loans.

A lack of meaningful savings together with over-indebtedness, leaves millennials and their families exposed to the consequences of having no money to pay off these debts should something happen to them. This makes life insurance and disability cover, contrary to popular belief, a unique and critical component in the financial planning process for millennials.

Sandwiched between responsibilities

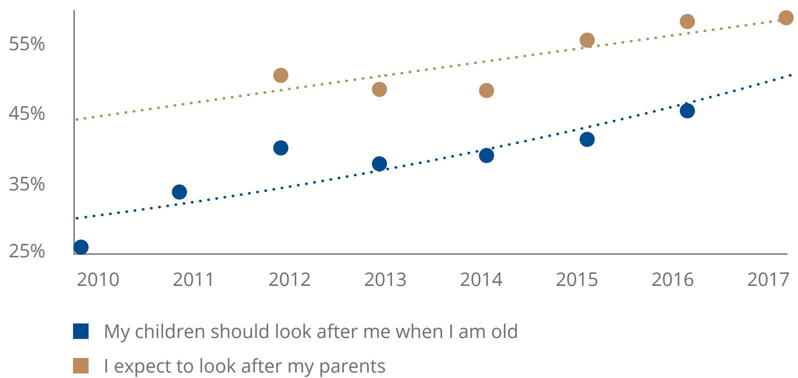
28% of South Africans are part of a sandwich generation[7]. They find themselves having to care for their parents in addition to their families, which puts additional financial strain on their immediate finances as well as their protection needs.

A rising trend is that of parental dependence on the young population of South Africa. The result is that even those who are newly employed, single and earning salaries may already have dependants, which is a strain that complicates the financial planning process.

In 2016, 45% of South African parents said they feel their children should take care of them financially in their old age and 58% of young persons said that they expect to have to support their parents in the future[12]. This expectation of future dependency is slowly becoming more prominent with South Africans as can be seen in figure 2 below:

Figure 2 - Current expectation of future parental dependency on their children

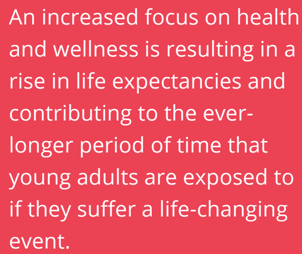
Children caring for their parents



In addition to immediate dependency, there should be realistic expectation of and planning for future parental dependence. Most young people do not factor this liability into their financial planning – however, it has become a mandatory expectation in most cases. One reason for this growing trend is increased parental longevity. In 1900, 5% of people in their 60s had a living parent. Today that number is close to 50%[12]. This means that not only are the chances of having to support parents drastically higher, but so too is the length of time that there will be parental dependence.

Millennials are thus 'sandwiched' between having to provide for themselves while at the same time for their parents. This hinders their ability to adequately provide for their retirement, reduces their current disposable income and increases the amount of risk cover they truly require due to having higher dependencies.

Increased focus on health and wellness



With continual advances in medical technology and a greater focus on health and wellness, people have been living increasingly longer lives.

Discovery Vitality's Gold and Diamond members now have a life expectancy of 87, 4% higher than the country with the highest life expectancy in the world, Japan, and 30% higher than the average insured person in South Africa.

However, within Vitality members, millennials (young adults under 30) are showing one of the biggest increases in Vitality engagement, where there has been a 187 times increase in the number of engaged young adults compared to unengaged young adults relative to 2004.

The result of an increased focus on health and wellness leading to extended longevity means that millennials are now exposed for a much longer period of time. In line with the findings earlier in this paper, this necessitates that proper financial planning takes place to ensure that adequate provisions have been put in place should a young adult suffer a life-changing event.

Factors influencing the propensity to take out life insurance

Underlying the financial behaviour of millennials seems to be the following paradox: Millennials are at once acutely aware, and worried, about their financial future, but also seemingly paralysed as to knowing what to do about it – which manifests in a present bias, a lack of savings, a mistrust for traditional investment, and an ironic sense of invincibility and immunity to the likely affects thereof.

In the context of the massive insurance gap for this population segment, the below section explores the factors influencing the propensity for MAROUNs to take out life insurance.

Lifestyle changes: The mobile generation

Millennials move jobs, cities, countries and careers much more than their parents, which complicates and hinders their financial planning process.

Young persons are increasingly mobile relative to their parents, leading to their characterisation as the 'mobile generation'.

They travel more than their parents, and move easily and often between cities, and even countries. Research shows that around 59% of millennials in the US currently live in a city different to their hometown, almost 80% have moved cities in their lifetime and over two-thirds have moved at least three times.

Figure 4 below illustrates this trend where Vitality members under the age of 30 are travelling much more now than they were 5 years ago, adjusting for all other factors. There has been a 30% increase in the average number of Vitality flights taken per member, and a 56-fold increase in international flights taken on average per member – from 2012 to 2018.

Increase in average number of Vitality flights taken per member under the age of 30

Figure 4 – Average number of Vitality flights purchased by Vitality members aged 30 or less 2012-2018 .

It is not just their locale which changes frequently, millennials also move jobs a lot more than their parents did. Recent studies show that by age 35, about 25% of young employees would have worked five jobs[21].

At the same time, if millennials don't leave their city of origin, they tend to live at home for longer durations. 15% of millennials in their twenties are living at home with their parents, which is much more than previous generations (50% more than the previous generation and almost double the generations before that)[22]. This reinforces the agility of the mobile generation who don't want to get tied down early in their lives by purchasing property.

However, this dynamism may also have negative consequences. The future is more uncertain for these agile millennials. Not only does this make it very difficult for millennials to gauge their future financial needs, but there is an unwillingness to plan for the future if they are not sure, for example, where they are going to be in 5 years.

Affordability of insurance

The low levels of disposable income seen in the millennial population, create barriers to entry into accessing comprehensive life cover.

Research shows that 55% of young adults do not have insurance due to affordability constraints. In addition to a high debt burden and low savings levels illustrated earlier in this paper, it follows that affordability constraints are preventing MAROUNs from prioritising insurance purchases.

Paradoxically, the combination of a lack of savings and a significant debt burden are at the same time drivers of both a need for insurance and a reason why MAROUNs don't have enough insurance.

Despite the lack of accessibility owing to affordability constraints, the analysis below illustrates how taking out life insurance at a young age is beneficial in the long run. Table 1 below provides an indication of what a 25-year-old who takes out life insurance today would be paying at different points in time, versus an individual who takes out a new policy at that point in time in the future (for the same level of cover).

Age	Cost per R100 000 cover for a new policy	Cost per R100 000 cover at age x for a 25-year-old taking out a policy now	Premium saving per R100 000 cover
30	R310	R270	R40
35	R400	R300	R100
40	R600	R340	R260
45	R860	R400	R460
50	R1320	R470	R850

Table 1- Cost of R1 million life insurance at different ages based on when cover was taken out.

In other words, if a 25-year-old person takes out life insurance today, they would save R850 per R1 million in cover compared to if they had to take out that same cover at age 50. Table 2 below shows the percentage saving for a millennial who takes out a life insurance policy today.

	Future age				
	30	35	40	45	50
25	12%	25%	43%	53%	64%
30		15%	35%	47%	60%
35			24%	38%	53%
40				18%	37%
45					24%

Table 2- Premium percentage saving on existing business versus new business rates

The tables above show that by purchasing a life insurance policy at a younger age and keeping this policy in force, an individual should end up paying far less than they would if they only took out the policy at a later time.

However, despite the clear advantages of taking out life insurance at a young age, MAROUNs lack of accessibility to comprehensive life insurance through low levels of disposable income, hamper the financial planning process.

Present bias

Millennials want instant gratification, hampering the long-term financial planning process and deterring them from taking out traditional life insurance products.

The preference for instant gratification marks millennials' behaviour as consumers. This manifests as a present bias, which also informs their approach to financial management.

The result is that millennials' saving behaviour is driven by immediate essential needs, not long-term retirement provisions. Studies have found that while 40% of millennials are saving for emergencies, 21% for food, 15% for education, 13% to take care of family members after death, 12% for funeral costs, only 11% are saving for retirement.

This present bias also manifests in an increase in debt and less restraint in impulsive purchases (compounded by the ease of shopping online). It also means less patience to realise investment gains over a long time and thus a preference for riskier but higher returning investments. Ultimately, it signals an underappreciation of life-changing events in the future and an urgency to mitigate them – leading to a low perceived value of long-term insurance.

Irrational underconsumption of life insurance

Despite price efficiencies and a greater need for life insurance, millennials are more likely to take out other forms of insurance.

According to a recent study done by a global reinsurer, millennials are more likely to take out travel and mobile phone insurance than life insurance.

Other types of insurance purchased

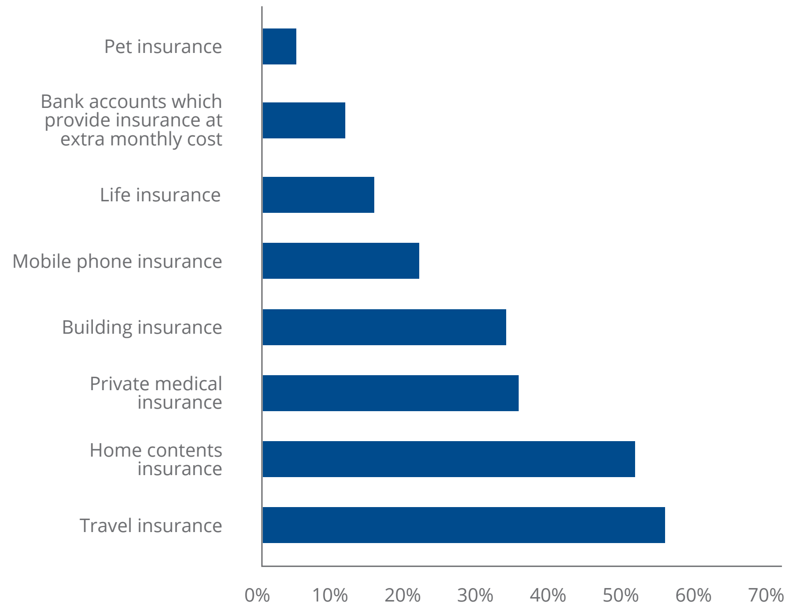


Figure 5 – The proportion of those aged 18-40 who purchase different types of insurance, for a survey performed in the UK

This perception is in stark contrast to the true nature of risk that one is exposed to and the cost per rand of cover at this age.

As an illustration of this paradox, consider the cost of the various forms of insurance compared to the size of the actual need at young ages:

	Average monthly premium	Typical exposure	Cover provided for every R1 in premium
Health insurance/ medical aid	R1 800.00	R3 800.00*	R2.1
Mobile phone insurance	R150.00	R10 000.00**	R66.67
Car insurance	R2 200.00	R500 000.00 ***	R227.00
Life insurance	R150.00	R1 100 000.00	R7 333.00
Income Protection	R186.00	R18 000 000.00	R97 000

* *The average cost of in-hospital claims on Discovery Health Medical Scheme for individuals under the age of 30*
** *Assuming the phone costs R10 000*
*** *Assuming the car is insured for R500 000*

With respect to healthcare, while medical scheme contributions are relatively expensive for young adults owing to community rating, there is a relatively smaller need owing to the majority of illnesses suffered in this age group being of short duration and low severity.

Owing to the large behavioural risk that this population segment is exposed to, while there is a moderate need, short-term insurance costs are extremely high.

In contrast, with regards to life insurance, despite the need being the greatest and the long-term exposure the highest, the cost of cover is the cheapest. These statistics show that despite the need being the greatest and the cost of cover the lowest, life insurance is not perceived to be the most important insurance need for millennials, hindering their decision to purchase life insurance and lowering the actual amount of cover that millennials have.

The GIG consumer

MAROUNs have grown up with the internet and mobile devices, apps and social networks. They have learned to socialise in tandem with the digital age and their lives are entwined with technology. As such, there is a tendency to prefer interacting over devices than in person.

Social networks are full of content driven by real-life experiences, but which lack the intimacy and emotional development of real-life interaction. In addition to how they socialise, millennials (and to a lesser extent other generations) shop differently, particularly online, in a variety of ways.

The key consequence is that there is necessary adaptation in how financial service providers appeal to and engage with this segment. Research into consumer behaviour has indicated that 57% of millennials would switch banks if it meant a better technology platform[25]. Discovery has already seen a 12-fold increase in digital engagement and 17-fold increase in app utilisation over time[3].

Distrust of financial advice

Despite a clear difficulty in financial planning for millennials, they are increasingly turning to robo-advisors for their financial advice.

In line with their attitudes as consumers in the GIG economy and their preference for ease of purchase, millennials have shown a dislike for traditional financial advice.

According to recent studies, only 16% of millennials say they would work with a financial adviser- that's half the rate that baby boomers do[26]. To illustrate these findings, the growth in popularity of robo-advisers for millennials can be referred to: One of the world's largest robo-adviser platforms, Wealthfront, states that over 60% of their clients are under the age of 35 and forecasts show that robo-advisers will manage approximately 10% of the entire world's assets by 2020. This illustrates the growth in popularity of robo-advisers for millennials.

A report out of the United States asserts that[28] "a quarter of millennials do not use a financial advisor to manage their long-term savings, and 40% say they will likely turn to a so-called "robo-advisor" in the near future..."

This trend toward robo-advice has potentially harmful consequences for millennials. The research in the previous sections of this paper has shown how the current trends are complicating the financial planning process for millennials. An underestimation and appreciation from the robo-advice platform of all the factors to consider in the financial planning process could result in significant underinsurance and insurability concerns in the future.

Delayed family formation

With millennials getting married and starting families at older ages, there is the perception that life insurance is not necessary.

Millennials are displaying vastly different attitudes when it comes to marriage and having children. In line with the fact that one of the most compelling reasons for taking out life insurance is the financial provision for one's dependants in case of death or disability, this is effecting the perceived need for life insurance and hence, the actual amount of cover that millennials have.

The age of first-time mothers has increased over time. At Discovery Health, the average age of first time mothers is 30[3]. In the United States, for example, the mean age of mothers at first birth has risen from 24 to 26 in the last 15 years.

Predictably, the average age at time of marriage has also increased over time. The median for men has moved from 31 to 36 from 1996 to 2015 and for woman the median rose from 29 to 31 over the same period.

Despite millennials getting married and having children at older ages and the resultant perception of a lack of financial dependants and a lower need for life insurance, should they suffer a life-changing event in their 20s they could face significant insurability constraints when they do have dependants in the future. Millennials may have lower insurance needs at young ages, but planning for the long term in line with these trends is also more complicated.

The insurance gap

The 2016 ASISA Insurance Gap Study found that the total insurance gap in South Africa had risen by 6.3% since 2013 to over R28 trillion. This study also found that cover adequacy levels were lowest for people under the age of 30 where they now have an insurance gap in excess of R9 trillion.

More specifically they found that earners under the age of 30 have a life cover adequacy of only 13% (R1.2 million insurance gap per earner on average) and a disability cover adequacy of 35% (R1.4 million insurance gap per earner on average). Figure 6 below summarises their findings across the various age categories.

Cover adequacy level for the various age groups

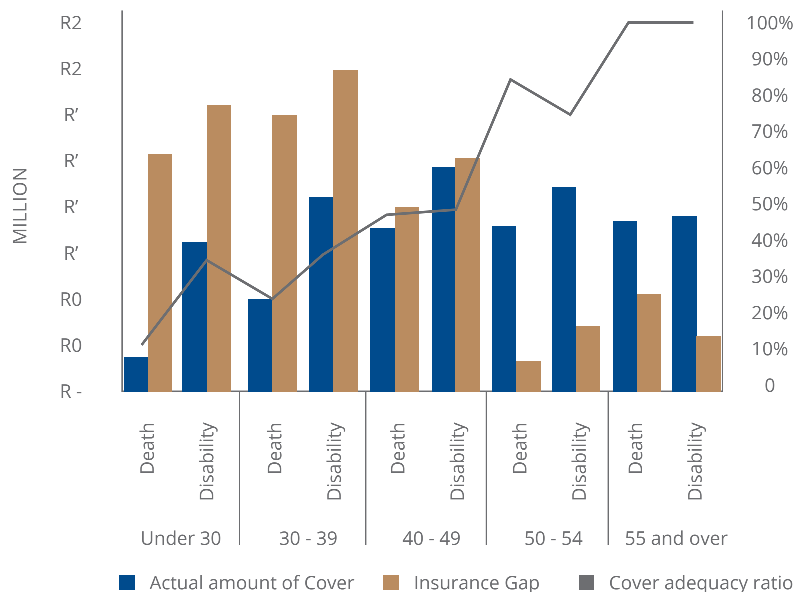


Figure 6 - ASISA Insurance Gap Study cover adequacy results.

However, this paper previously highlighted a number of challenges, from changes in attitudes of millennials to a higher exposure to a loss of income, which were shown to significantly impact on both the need and quantum of insurance for this population segment.

In light of the findings identified, the methodology, albeit with a change in assumptions, and modelling undertaken in the 2016 ASISA Insurance GAP Study was replicated so as to perform an extension of their study that attempts to take these challenges into account.

The Insurance Gap for Millennials

The 2016 ASISA Insurance Gap Study noted a number of key assumptions at the outset of their paper, in particular:

- The study assumed that the insurance need extends until retirement age only as their study does not express any view on post-retirement provision adequacy
- What's more, the study assumes that the retirement age of millennials is 60, and not 65 (the compulsory retirement age). Given increasing life expectancies, it has been widely accepted that people will need to work longer into retirement to ensure that they have sufficient income in retirement[32].
- The study also ignores any additional short-term expenses related to the risk event, such as funeral, medical costs and any expenses required to adjust the claimants' standard of living.

In the insurance gap study, the insurance need was calculated by taking the product of:

- The total income at risk: This is the annual income for active earners before taxation and deduction. It includes salaries, wages, commissions, fees and employers' contributions (such as to pension and medical aid).
- The replacement ratio: This represents the proportion of household members' personal income that will be missed after the death or disability event.
- The capitalisation factor: This factor is related to the number of years that the earner would still have contributed to the household. It reflects the period from current day up to retirement age. In the calculation, allowance was made for investment return outstripping inflation by 1.5%.

The sections below outline the implications of changing the key assumptions of the 2016 ASISA Insurance Gap Study to take account of factors widening the insurance gap for millennials.

Increasing life expectancies

In line with life expectancies in South Africa having increased by almost 20% since 2005, and under the assumption that earners will need to work until at least age 65 to ensure that they have sufficient income in retirement, raising the retirement age to age 65 in the model results in an insurance gap on death increasing by 11% to R4.5 trillion (or 1.3 million per earner). Similarly, the insurance gap on disability increases by 15% to R5.6 trillion (or R1.6 million per earner). Consequently, the cover adequacy on death and disability goes down to 12% and 32% respectively.

Greater long-term exposure on a permanent disability event

In line with the fact that a young adult who suffers a permanent disability may not be able to earn an income thereafter, resulting in an inability to contribute towards their pension, one can extend the above analysis beyond age 65. This needs to be done to take account of the income a young adult will need in retirement, should they suffer a life-changing disability event.

Extending the above analysis to age 80 (the average life expectancy of a Discovery member), meaning that a young adult will need an income up until age 80, results in the insurance gap on death and disability increasing to R5.6 trillion (or R1.6 million per earner on average) and R7.4 trillion (or R2.1 million per earner on average) respectively. That's a 38% and 53% increase respectively.

Changes in lifestyle requiring higher levels of income protection

In line with the trend to get married later in life, millennials need to protect a far greater proportion of their income on disability. In other words, they need a higher replacement ratio as the proportion of their household income that will be missed after disability, which is effectively at 100%.

Changing the replacement ratio to 100% on disability results in the insurance gap on disability increasing to R8.4 trillion (or R2.4 million per earner on average), that's a 72% increase off the originally calculated insurance gap for young adults.

The higher income growth rate millennials will experience early in their careers

One also needs to consider the fact that millennials can be expected to experience multiple boosts in their salary in excess of inflation during the first 20 years of their career. This is in light of the successive and quick job promotions a millennial can be expected to receive during their first few working years or to take account of the increased switching of jobs seen in the millennial population.

Assuming a millennial will experience four job promotions over the first 20 years of their career, where they get a 10% increase in salary each time, this results in the insurance gap on disability growing to R9.4 trillion (twice as high as the initial disability gap estimated)*.

The above analysis ignores the impact of the other challenges, such as millennials being less inclined to actually take out insurance owing to attitudinal changes. In light of these trends, it is clear that the insurance gap could be grossly underestimated for young adults, further exacerbating the low cover adequacy ratios for this client segment (estimated to be 7% and 24% on death and disability respectively after taking account of the above trends).

* Assumptions: The millennial experiences a real increase in their salary of 1.5% each year, in line with the ASISA Insurance Gap Study assumptions. In addition, the millennial is assumed to experience additional salary growth rates of 10% every 5 years for the first 20 years of their careers. The present value of the income at risk under the ASISA Insurance Gap Study assumptions and under these new assumptions was then compared to get an estimate of the underestimation of income at risk.

A simple solution to a complex problem

It is clear that the various trends affecting millennials reach across all aspects of financial planning and beyond. These worsening trends have created incredibly complex and difficult challenges, from a growing insurance gap to a potential shortfall in retirement savings for this generation. It is also evident that to overcome these challenges, unique solutions that align with the interests, needs, wants, lifestyles and attitudes of this millennial generation are needed.

From a life insurance perspective, despite these complex and seemingly intractable challenges, the solution required is relatively simple - The 2016 ASISA Insurance Gap study notes that in order to close the insurance gap, millennials simply need an additional 1.9 times the amount of their current disability cover, amounting to an additional 4.6% of their income. The alternative would require millennials to reduce household expenditure by 42% or increase their income by 97% post-claim.

However, this relatively simple solution becomes difficult in the face of the identified challenges.

These challenges create a seemingly insurmountable task - to develop a life plan that is at the same time more engaging than traditional life insurance so that it meets the need for instant gratification, has better aligned risk benefits with more tailored protection, while offering the lowest cost entry point to increase accessibility.

The below section outlines an example of one potential solution, the Smart Life Plan for young adults from Discovery Life. It provides an indication as to how Discovery Life tailored its Shared-Value Insurance model, to meet the requirements of a solution for this complex population segment.

Tailoring the Shared-Value Insurance Model for millennials

Discovery Life operates a shared-value insurance model whereby all parties involved benefit from the positive behaviour of its members. By encouraging policyholders to manage their health and wellness through the Vitality programme, Discovery Life experiences lower claims, lower lapses and positive selection that provide value that is then returned to policyholders. Policyholders enjoy better value through discounted premiums, PayBacks and comprehensive benefits.

Shared value overcoming the present bias

To meet the demands of a population that craves instant gratification and short-term rewards, the Smart Life Plan, through the Vitality Active programme, provides personalised, weekly, tailored rewards if young adults manage their health and wellness and practice good driving behaviour.

As was highlighted earlier in the paper, the most significant mortality risk to millennials is motor vehicle accidents, which contributes to the fact that approximately 88% of deaths of clients aged between 18 and 30 are due to behavioural factors and can be reduced with the appropriate rewards and behaviour change programmes. To target the key behavioural risks facing young professionals, the Vitality Active programme includes weekly goals and rewards that encourage safe driving for clients younger than 30.

Vitality drive has been incredibly successful in reducing the number of accidents of members. In 2015, members with an Advanced Vitality drive status had 59% less accidents than those on the Base status.

A fully digitised product, creating an engaging customer experience

In line with millennials' desire to interact and engage online and through their mobile devices, the Vitality Active programme on the Smart Life Plan is housed in a fully digitised programme on the Discovery app. This enables millennials to track their activity levels, compete with their friends, earn weekly rewards and enquire about any questions they may have.

Experience to- date shows that clients on the Vitality Active Rewards programme display a twelve-fold increase in their level of digital engagement on Discovery's platforms. More specifically, we see that clients use the app over seventeen times more compared to before activating this benefit.

Members on the Vitality Active Rewards programme also display a lapse rate over 80% lower compared to other Discovery Life members, demonstrating how providing appropriately aligned short-term rewards on a fully digitised programme can both meet millennials' need for instant gratification and their desire to engage and interact online.

Shared value enabling the meeting of complex needs

Large income protection need

As highlighted earlier in this paper, for the majority of millennials, their biggest asset is currently their future income. However, traditional income protection benefits do not accurately match this need as no account is taken in-claim of promotions a young adult would have received had they not become disabled. This could result in significant shortfalls in cover, estimated at around 37% until age 65 on a traditional income protection benefit.

In line with this, the Income Continuation Benefit on the Smart Life Plan includes the Promotion Tracker Benefit. This benefit increases policyholders' in-claim monthly Income Continuation Benefit payment every five years by a further 10% to allow for promotions they may have received if they had not become disabled. This better tracks a policyholder's income in-claim, ensuring accurate protection.

Figure 8 below compares the expected salary projection of the average young professional relative to what a young adult will receive in-claim on a traditional income protection benefit and on Discovery Life's Smart Life Plan. As can be seen below, with the Promotion Tracker Benefit, the policyholder effectively matches their expected salary growth in-claim.

Expected salary growth for the average young professional compared to the Promotion Tracker Benefit in-claim

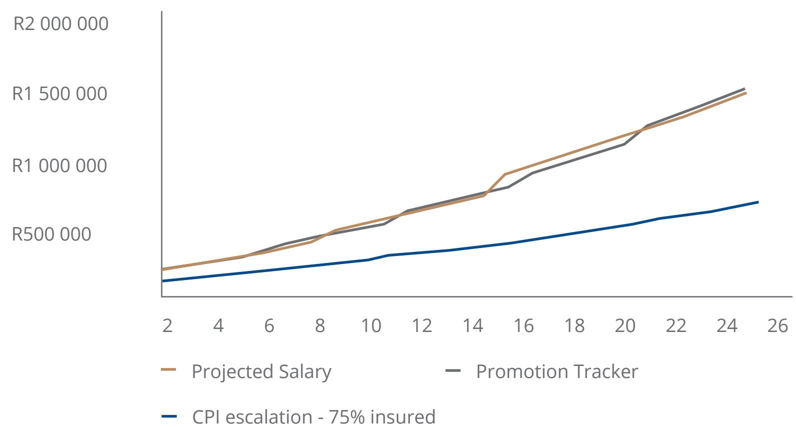


Figure 8 - Expected salary growth and in-claim income protection payments for average young professional.

Family responsibility need

In line with many millennials having to care for their parents after graduation from university, the Smart Life Plan automatically includes Parent Funeral Cover at no additional premium. This benefit pays out up to R20 000 on the death of a parent or stepparent.

Dynamic life insurance need

With millennials being the mobile generation that travels far more than previous generations, the Income Continuation Benefit on the Smart Life Plan automatically includes the Travel Protector Benefit.

This benefit allows a policyholder to take up to six months off for a sabbatical to travel while retaining their income protection.

Shared value increasing accessibility through upfront affordability and long-term sustainability

It is clear that with low levels of disposable incomes, driven by high levels of over-indebtedness, a low cost entry point is required to facilitate millennials' access to life insurance.

By embedding shared value into the foundations of the Smart Life Plan and channelling the efficiencies generated through health and wellness management into lower premiums, Discovery Life created an entry point into comprehensive life insurance for only R100 per month on the Smart Life Plan.

To encourage young adults to practice good driving behaviour and manage their health and wellness, in addition to receiving weekly rewards through the Vitality Active programme, the Smart Life Plan also allows policyholders to benefit from a unique and tailored form of shared-value insurance through the Smart PayBack Fund.

The Smart PayBack Fund returns the surplus risk savings generated from policyholders' engagement in the Vitality Active programme by allowing Smart Life Plan policyholders to get up to 100% of their qualifying premiums back. In so doing, the Smart Life Plan aims to incentivise clients to lead a healthier, safer lifestyle, helping to eliminate the majority of mortality and morbidity risk for this age group.

Conclusion

Young adults of today are the most important generation in South Africa. Millennials are the largest[33] generation ever, not just in South Africa, but globally. Not only will this population segment drive the economy for decades, their self-sufficiency in retirement and upon a life-changing event will be critical to the sustainable growth of the economy.

Despite the importance of millennials, this paper highlighted a number of complex challenges which are contributing to the widening of their insurance gap, estimated to now be around R15 trillion. While the challenges impeding the closure of this insurance gap are immensely complex, this paper went on to show that a solution is relatively simple: Comprehensive life cover that meets these complex, evolving needs but at an affordable entry point. This was illustrated through an example of a potential solution, the Smart Life Plan from Discovery Life.

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